



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
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August 18, 2008

TO: Supervisor Yvonne B Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM:

Wendy L. Watanabe
Acting Auditor-Controller

A handwritten signature in cursive script, appearing to read "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **CATHOLIC CHARITIES OF LOS ANGELES, INC. CONTRACT REVIEW
- A COMMUNITY AND SENIOR SERVICES WORKFORCE
INVESTMENT ACT PROGRAM PROVIDER**

We have conducted a program, fiscal and administrative contract review of Catholic Charities of Los Angeles, Inc., dba Archdiocesan Youth Employment Services, (Catholic Charities or Agency), a Community and Senior Services (CSS) Workforce Investment Act (WIA) program provider.

Background

CSS contracts with Catholic Charities, a private non-profit agency to provide and operate the WIA Youth and Foster Youth Programs. The WIA Youth and Foster Youth Programs are comprehensive training and employment programs for in-school and out-of-school youths, ages 14 to 21 years old. Catholic Charities' offices are located in the First, Second, Third and Fifth Districts.

Catholic Charities is compensated on a cost reimbursement basis and has a contract for \$964,326 for Fiscal Year (FY) 2007-08.

"To Enrich Lives Through Effective and Caring Service"

Purpose/Methodology

The purpose of the review was to determine whether Catholic Charities complied with its contract terms and appropriately accounted for and spent WIA funds in providing services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed a number of the Agency's staff and clients.

Results of Review

Generally, Catholic Charities provided the program services to eligible participants and maintained sufficient internal controls over its business operations. However, Catholic Charities did not implement six (40%) of the 15 recommendations contained in our prior year's monitoring report or repay \$342 in questioned costs. Catholic Charities also billed CSS \$42,458 in unallowable and/or unsupported expenditures during the current monitoring review for FY 2007-08 and on their 2006-07 final close out invoice. Specifically, Catholic Charities:

- Billed CSS \$6,971 (\$5,404 in FY 2007-08 and \$2,500 in FY 2006-07) in unsupported expenditures. For example, Catholic Charities billed CSS for a subcontractor based on estimated amounts not actual expenditures as required by the County contract.
- Overbilled CSS \$10,448 (\$1,300 in FY 2007-08 and \$9,148 in FY 2006-07) in indirect expenditures by applying the approved indirect cost rate to the contract budget instead of actual expenditures as required by the County contract.
- Inappropriately billed CSS \$18,300 (\$4,000 in FY 2007-08 and \$14,300 in FY 2006-07) in participants' incentives.
- Overbilled CSS \$271 in their November 2007 rent expenditures.
- Exceeded their WIA Youth Program budget by \$5,535 in FY 2006-07.

In addition, the Agency did not always comply with WIA and County contract requirements. For example:

- Catholic Charities did not meet all the performance measures as outlined in the FY 2006-07 County contract.
- Catholic Charities' Cost Allocation Plan was not prepared in compliance with the County contract.

Details of our review along, with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Catholic Charities and CSS on May 14, 2008. In their attached response, Catholic Charities disagreed with the majority of our findings, which are based on the County contract requirements and WIA guidelines. Below is the Auditor-Controller's (A-C) response to Catholic Charities' statements in their response:

Agency: **The preliminary review of findings was not complete, the draft contained more items than were previously discussed and items that we thought were taken care of were still in the report.**

A-C: We discussed the majority of our findings in detail with Agency management on February 12, 2008, our last day of fieldwork, at which time the Agency's Executive Director signed our preliminary findings list acknowledging that the findings were discussed with Agency management. We also provided a copy of our draft report to the Agency on April 29, 2008, provided specific details of our findings on May 2, 2008, and discussed the finding in further details on May 14, 2008. As indicated in our report, in instances where the Agency provided adequate documentation after our initial review, we indicated that subsequent to our review, the Agency provided adequate documentation to support the expenditures. All findings were discussed with Agency management on the dates identified above and the report listed corrective actions taking by the Agency.

Agency: **We feel that the use of estimates, when actual amounts are not available is proper for billing purposes. However, we will strive to improve our estimating and accrual procedures related to subcontractor expenditures, effective immediately.**

A-C: We agree that the use of estimates is acceptable when actual expenditures are not available. However, as indicated in our report, according to the subcontractor's agreement, the subcontractor agreed to invoice the Agency on a monthly basis. Had Catholic Charities enforced the requirement of submitting monthly invoices, the Agency would have had actual expenditures to bill CSS instead of using estimates. In addition, the Agency indicated that their policy is to adjust the estimated expenditures to actual at the end of the program year. However, as indicated in our report, as of February 2008, Catholic Charities had not adjusted the FY 2006-07 estimated subcontractor's expenditures to actual as required.

Agency: To meet the time line (to submit invoices within ten business days), we would have to accrue and estimate more costs, a practice that the County does not support.

A-C: We do support the use of estimates for billing purposes when actual expenditures are not available. During our May 14, 2008 meeting, we also informed the Agency that estimates were acceptable as long as they adjust for actual expenditures in the subsequent month or, at minimum, on a quarterly basis.

We thank Catholic Charities for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

WLW:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer
Cynthia Banks, Director, Department of Community and Senior Services
Rev. Monsignor Gregory A. Cox, Executive Director, Catholic Charities of Los Angeles, Inc. dba Archdiocesan Youth Employment Services
Cardinal Roger M. Mahony, Chairman, Catholic Charities of Los Angeles, Inc. dba Archdiocesan Youth Employment Services
Public Information Office
Audit Committee

**WORKFORCE INVESTMENT ACT PROGRAM
CATHOLIC CHARITIES OF LOS ANGELES, INC.
FISCAL YEAR 2007-08**

ELIGIBILITY

Objective

Determine whether Catholic Charities of Los Angeles, Inc., dba Archdiocesan Youth Employment Services, (Catholic Charities or Agency) provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

Verification

We reviewed the case files for ten (6%) of the 177 participants that received services from July 2007 through January 2008 for documentation to confirm their eligibility for WIA services.

Results

All ten participants met the eligibility requirements for the WIA programs.

Recommendation

There are no recommendations for this section.

BILLED SERVICES/CLIENT VERIFICATION

Objective

Determine whether the Agency provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the participants received the billed services.

Verification

We reviewed the documentation contained in the case files for ten (6%) participants that received services during July 2007 through January 2008. We also interviewed eight participants.

Results

The eight participants interviewed stated that the services they received met their expectations. However, Catholic Charities did not report one participant's program activities, such as exiting the program, on the Job Training Automation (JTA) system for

one (10%) of the ten participants sampled as required by the County contract. The JTA system is used by the State of California Employment Development Department and the Department of Labor to track WIA participant activities. This finding was also noted during the prior year's monitoring review.

Subsequent to our review, Catholic Charities updated the JTA system to accurately reflect the participant's program activities.

Recommendation

- 1. Catholic Charities management ensure that staff update the Job Training Automation system to accurately reflect the participants' program activities.**

PERFORMANCE OUTCOMES

Objective

Determine whether the Agency met the planned performance measures as outlined in the County contract and accurately report the performance outcomes to the Workforce Investment Board (WIB).

Verification

We compared the reported Fiscal Year (FY) 2006-07 actual performance outcomes to the planned performance measures outline in the County contract and the program activities reported on the JTA system. In addition, we reviewed the documentation contained in the case files for ten participants reported as having completed training and/or placed in employment during FY 2006-07.

Results

Generally, Catholic Charities' FY 2006-07 actual performance outcomes were accurately reported to the WIB. However, Catholic Charities did not meet all the performance measures as outlined in the County contract. Specifically, Catholic Charities planned that 185 participants would successfully exit the WIA Youth Program. However, only 133 (72%) participants exited the WIA Youth Program. The County contract requires all contractors to obtain at least 85% of their planned performance measures.

Recommendation

- 2. Catholic Charities management ensure that performance measures outlined in the County contract are met.**

CASH/REVENUE**Objective**

Determine whether cash receipts and revenue are properly recorded in the Agency's records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed Agency personnel and reviewed financial records. We also reviewed the Agency's December 2007 bank reconciliation.

Results

Catholic Charities maintained adequate controls to ensure that revenue was properly recorded and deposited in a timely manner.

Recommendation

There are no recommendations for this section.

EXPENDITURES/PROCUREMENT**Objective**

Determine whether program related expenditures are allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed Agency personnel, reviewed financial records and reviewed documentation to support 26 non-payroll expenditure transactions billed by the Agency for July and November 2007, totaling \$39,694.

Results

Catholic Charities overbilled CSS \$6,975 in unsupported and unallowable expenditures. Specifically, Catholic Charities:

- Billed CSS \$17,727 in unsupported expenditures. Specifically, Catholic Charities billed CSS for a subcontractor based on estimated amounts not actual expenditures as required by the County contract. Agency management indicated that the subcontractor only invoices at the end of the program year. However, according to the subcontractor's agreement, the subcontractor agreed to invoice the Agency on a monthly basis. This finding was also noted during the prior year's monitoring review.

Subsequent to our review, the Agency provided additional documentation to support \$13,256 of the \$17,727 in unsupported expenditures, reducing the undocumented amount to \$4,471.

- Overbilled CSS \$1,300 in indirect expenditures by applying the approved indirect cost rate to the total contract budget instead of actual expenditures as required by the County contract. In addition, Catholic Charities included the subcontractor's budgeted expenditures in the calculation of the indirect expenditures which also prohibited by the County contract and federal regulations.
- Did not maintain adequate documentation to support the allocation of insurance expenditures totaling \$933. Subsequent to our review, Catholic Charities provided additional supporting documentation. However, the documentation did not sufficiently support the expenditures. Specifically, Catholic Charities billed \$933 ($\$80,894 \times 1.15\%$) to CSS. However, the invoice provided by the Agency totaled \$19,282 not the \$80,894.
- Billed CSS \$450 in supportive services provided to one non-WIA participant. Subsequent to our review, Catholic Charities credited CSS \$450 in February 2008.
- Overbilled CSS \$271 in their November 2007 rent expenditures.

Recommendations

Catholic Charities management:

- 3. Repay CSS \$6,975.**
- 4. Maintain adequate documentation to support program expenditures and request for reimbursement for actual expenditures incurred.**
- 5. Require subcontractors to invoice for actual expenditures on a regular basis.**
- 6. Ensure indirect costs billed to CSS are calculated correctly by applying the approved indirect cost rate to actual expenditures not budgeted amounts.**
- 7. Request reimbursement for only WIA related expenditures.**
- 8. Review the FY 2007-08 rent expenditures to ensure that the Agency billed only actual expenditures and repay CSS for any unsupported amounts.**

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE

Objective

Determine whether the Agency maintained sufficient controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit and tested transactions in various areas such as expenditures, payroll and personnel.

Results

Generally, Catholic Charities maintained sufficient controls over its business operations. However, Catholic Charities did not submit their invoices to CSS within ten calendar days of the month immediately following the month in which the services were rendered as required by the County contract. This finding was also noted during the prior three years' monitoring reports.

Recommendation

- 9. Catholic Charities management ensure that invoices are submitted to CSS within the timeframes established in the County contract.**

FIXED ASSETS AND EQUIPMENT

Determine whether Catholic Charities' fixed assets and equipment purchases made with WIA funds are used for the WIA programs and are safeguarded.

We did not perform test work in this section as Catholic Charities did not use WIA funds to purchase fixed assets or equipment.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures were appropriately charged to the WIA programs. In addition, determine whether personnel files were maintained as required.

Verification

We traced the payroll expenditures invoiced for 20 employees and seven participants totaling \$36,430 for July and November 2007 to the Agency's payroll records and time

reports. We also interviewed two employees and reviewed the personnel files for six employees assigned to the WIA programs.

Results

Catholic Charities billed CSS \$4,000 for unallowable incentives. Incentives are an allowable WIA expenditure. However, Catholic Charities' budget for their FY 2007-08 contract did not include incentives. The County contract indicates that Contractors shall request reimbursement for actual expenditures incurred not to exceed budgeted amounts.

In addition, Catholic Charities reported the incentives as wages on their invoice to CSS. Subsequent to our review, Catholic Charities indicated that the payments should not have been billed as wages and will submit a request for a budget modification to CSS to establish incentives.

Recommendations

Catholic Charities management:

- 10. Repay CSS \$4,000 or request a waiver from CSS or a budget modification to establish a budget for incentives.**
- 11. Ensure that expenditures are charged to the appropriate budgeted cost category.**
- 12. Review the Fiscal Year 2007-08 payroll expenditures to ensure that the Agency charged the incentives to the appropriate cost category and repay CSS for any unallowable and/or unsupported amounts.**

COST ALLOCATION PLAN

Objective

Determine whether Catholic Charities' Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

Verification

We reviewed the Cost Allocation Plan and reviewed a sample of expenditures incurred by the Agency in July and November 2007 to ensure that the expenditures were properly allocated to the Agency's programs.

Results

Catholic Charities' Cost Allocation Plan was not prepared in compliance with the County contract. Specifically, Catholic Charities' Cost Allocation Plan allocated shared program expenditures based each program's direct payroll expenditures plus subcontractor expenditures to total direct payroll expenditures plus total subcontractor expenditures. However, the County contract and federal regulations both prohibit the inclusion of items, such as subcontractor payments in the distribution base to allocating shared costs.

Recommendations**Catholic Charities management**

- 13. Revise the Agency's Cost Allocation Plan to comply with the County contract and ensure compliance.**
- 14. Review the FY 2007-08 shared program expenditures, reallocate the shared expenditures based on an acceptable cost allocation method and repay CSS for any overbilled amounts.**

CLOSE-OUT REVIEW**Objective**

Determine whether the Agency's FY 2006-07 final close-out invoices for the WIA Youth and Foster Youth Programs reconciled to the Agency's financial accounting records.

Verification

We traced Catholic Charities' FY 2006-07 general ledgers to the Agency's final close-out invoices for FY 2006-07. We also reviewed a sample of expenditures incurred in April, May and June 2007.

Results

Catholic Charities' final close-out invoices reconciled to the Agency's financial records. However, Catholic Charities overbilled CSS \$39,227 in unallowable and/or unsupported expenditures. Specifically, Catholic Charities:

- Inappropriately billed CSS \$14,300 in incentives. As previously indicated , Catholic Charities' contract did not include incentives in their budget.
- Did not maintain adequate documentation to support the subcontractor's expenditures totaling \$9,729. As previously indicated, Catholic Charities billed subcontractors' expenditures based on budget not actual expenditures as required

by the County contract. Agency management indicated that adjustments to actual expenditures are made at the end of the program year. However, as of February 2008, Catholic Charities did not adjust the FY 2006-07 estimated subcontractor's expenditures to actual which resulted in a \$9,729 overbilling. Subsequent to our review, Catholic Charities repaid CSS \$7,229 reducing the overbilling to \$2,500.

- Billed CSS \$9,148 in indirect expenditures based on the budget not actual expenditures. In addition, Catholic Charities included the subcontractor's budgeted expenditures in their calculation of the indirect expenditures. The County contract and federal regulations both prohibit including items, such as subcontractor payments, in their calculation of the indirect costs.
- Exceeded the WIA Youth Program budget by \$5,535. The County contract requires contractors to request for reimbursement for actual expenditures incurred during the program year, not to exceed budgeted amounts.
- Did not appropriately allocate travel expenditures totaling \$515. According to the Agency's Cost Allocation Plan, direct travel expenditures were allocated based on employees' salaries. However, Catholic Charities allocated all travel expenditures as shared program expenditures. This finding was also noted during the prior year's monitoring review. Subsequent to our review, Catholic Charities appropriately allocated their travel expenditures.

Recommendations

Refer to recommendations 4, 6 and 11.

Catholic Charities management:

- 15. Repay CSS \$31,483 (\$39,227 - \$7,229 - \$515)**
- 16. Review the FY 2006-07 payroll expenditures to ensure that the Agency charged the incentives to the appropriate cost category and repay CSS for any unallowable and/or unsupported amounts.**
- 17. Ensure that amounts billed to CSS do not exceed the budgeted amount.**
- 18. Comply with the Agency's Cost Allocation Plan and ensure that costs are appropriately allocated.**

PRIOR YEAR FOLLOW-UP**Objective**

Determine the status of the recommendations reported in the prior monitoring review completed by the Auditor-Controller.

Verification

We verified whether the outstanding recommendations from FY 2006-07 monitoring review were implemented. The report was issued on October 4, 2007.

Results

The prior year's monitoring report contained 15 recommendations. Catholic Charities implemented nine recommendations. As previously indicated, the finding related to recommendations 1, 4, 9 and 17 contained in this report were also noted during the prior year's monitoring review. The remaining two recommendations required the Agency to repay CSS \$342 and implement the outstanding recommendations from the FY 2005-06 monitoring report. Catholic Charities management stated they will implement the outstanding recommendations by June 30, 2008.

Recommendations**Catholic Charities management:**

- 19. Immediately repay CSS \$342.**
- 20. Implement the outstanding recommendations.**



Cardinal Roger M. Mahony
Chairman of the Board

Monsignor Gregory A. Cox
Executive Director

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June 6, 2008

Wendy L. Watanabe, Acting, Auditor-Controller
Department of Auditor-Controller
Countywide Contract Monitoring Division
1000 S. Fremont Avenue, Suite #51
Alhambra, CA 91803

Attention: Yoon Bae

**SUBJECT: CATHOLIC CHARITIES OF LOS ANGELES, INC. (CCLA) CONTRACT -
A COMMUNITY AND SENIOR SERVICES WORKFORCE INVESTMENT
ACT PROGRAM PROVIDER**

On behalf of CCLA, (dba Archdiocesan Youth Employment Services), we have attached our response to the findings and recommendations from the fiscal and administrative contract review of Catholic Charities of Los Angeles, Inc., a Community and Senior Services Workforce Investment Act program provider.

While we believe the audit was conducted professionally, we disagree with many of the findings and we once again have issues with the overall manner in which the review of audit findings were handled. The preliminary review is rarely complete in its findings and we find that when we had resolved many of the issues, the next draft comes up with more items that were not previously discussed and items we thought were taken care of but are still in the report. Not enough attention is given to the review of the preliminary findings. It would be better to delay the preliminary report and make it more complete than to issue something that continues to grow.

The report contains generalizations and misstatements regarding references to "unsupported costs" and "overbilled" expenditures. We also disagree with the manner in which the report is written, inferring a magnitude of costs that is misleading. Examples of this are in the Results of the Review. The first item listed states that we "billed CSS \$27,456 in unsupported expenditures. Specifically, Catholic Charities billed CSS for a subcontractor based on estimated amounts not actual expenditures as required by the



County contract." Later, in their detailed report, they say that CCLA supported \$20,485 of this amount.


Another example is the next item in the Results of the Review. CCLA "overbilled CSS \$10,448 in indirect expenditures by applying the approved indirect cost rate to the contract budget instead of actual expenditures as required by the County contract." This includes findings for the prior year that need to be discussed with CSS, as this is how the program budget was prepared and what CSS approved.

These are but two examples of how the findings are misrepresented in their report. We will address the other ones as we respond to the findings and recommendations.

To make our responses more meaningful, we list the audit area and the recommendation, followed by our response.

If you have any questions please contact me or David I. Furukawa, Assistant Controller at (213) 251-3466.

Very truly yours,


for Sarah H. Elder
Controller
(213) 251-3475

Attachment

cc: Cynthia Banks, Director, DCSS
Rev. Monsignor Gregory A. Cox, Executive Director, CCLA
Robert Gutierrez, Program Director, AYE

**Catholic Charities of Los Angeles, Inc. response to County audit report received
May 28, 2008**

To make our responses more meaningful, we list the audit area and the recommendation, followed by our response.

ELIGIBILITY

Recommendation

There are no recommendations for this section

BILLED SERVICES/CLIENT VERIFICATION

Recommendation #1

1. Catholic Charities management ensure that staff update the Job Training Automation system to accurately reflect the participants' program activities.

Response #1

1. *The delay in reporting a single client's outcome into the JTA system represents an exception to practice. Every effort is made to ensure information is received from field offices and inputted into JTA system within a reasonable time frame.*

PERFORMANCE OUTCOMES

Recommendation #2

2. Catholic Charities management ensure that performance measures outlined in the County contract are met.

Response # 2

2. *The Archdiocesan Youth Employment Services (AYE) serves multi-barriered and economically disadvantaged youth. Approximately 85% require educational remediation and many are high school dropouts, foster and probation youth. Nearly 40% are from families receiving public assistance. While we make every effort to achieve planned outcomes, the special challenges facing our targeted youth population involve issues that cannot be achieved within the timeframe. Due to special circumstances, we found it necessary to carryover many of the clients to ensure their successful completion. The average cost per participant outcome was \$7,250. In our opinion, the cost for achieving success with youth facing challenges outlined above is a sound investment (compare to California Youth Authority \$83,000, USC \$50,000, LAUSD \$75,000 K-9). AYE achieves*

85% positive outcomes and will not exit a client until they have acquired necessary skills and a career plan to ensure their long term success and employability. However, we will make every effort to develop and negotiate a plan to ensure quantitative performance goals are met in the future.

CASH/REVENUE

Recommendation

There are no recommendations for this section.

EXPENDITURES/PROCUREMENT

Recommendations #s 3, 4, 5, 6, 7 & 8

Catholic Charities management:

3. Repay CSS \$6,975 (\$20,681 - \$13,256 - \$450).
4. Maintain adequate documentation to support program expenditures and request for reimbursement for actual expenditures incurred.
5. Require subcontractors to invoice for actual expenditures on a regular basis.
6. Ensure indirect costs billed to CSS are calculated correctly by applying the approved indirect cost rate to actual expenditures not budgeted amounts.
7. Request reimbursement for only WIA related expenditures.
8. Review the FY 2007-08 rent expenditures to ensure that the Agency billed only actual expenditures and repay CSS for any unsupported amounts

Response #s 3,4,5,6,7, & 8

3. *This was partially addressed in our comments in our transmittal letter to the County. In addition, we have made the credit to our subcontractor expenses and therefore a refund payment is not necessary.*
4. *We partially agree with this recommendation. We feel that the use of estimates, when actuals are not available are proper for billing purposes. However, we will strive to improve our estimating and accrual procedures related to subcontractor expenditures, effective immediately.*

5. *This will be implemented immediately as part of #4 above. The auditor has agreed that a quarter deadline for some of the subcontractors is acceptable.*
6. *Part of this was also addressed in the transmittal letter in that this is a matter for discussion with CSS as to how our program budgets are prepared. In the results section of the auditor's report, the auditor says that we did not maintain adequate documentation to support the allocation of insurance expenditures totaling \$933. "Specifically, CCLA billed \$933 (\$80,984) x 1.15% to CSS. However, the invoice provided by the Agency that supported the \$933 expenditures only totaled \$19,282." Our insurance allocation is based upon the direct costs of the programs and the estimated insurance costs for the year. The \$19,282 is the monthly insurance expense and the \$80,984 the CSS program cost for the month. Two entirely different things than stated in their findings.*
7. *We agree with this recommendation and the \$450 cited was simply an error, which we later reversed.*
8. *We disagree with this recommendation. This recommendation relates to something that just showed up on the final report and was not directly discussed before. In a preliminary draft of this report, the auditor asked about a refund for rent credits for this year and we explained to them that in June 2007, we took a \$10K credit to rent expense and the programs were given the credit in that year, but that the cash part of the transaction would not take place until this year. The auditors deleted the original recommendation but added this one. They are asking for the prorated difference between the allocated amount of the rent expense and the prorated rent paid, due to the cash reduction this year. This is just the other half of the transaction that we had previously discussed and resolved with them.*

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE

Recommendation #9

9. *Catholic Charities management ensure that invoices are submitted to CSS within the timeframes established in the County contract.*

Response #9

10. *We believe the 10 day invoice requirement is not reasonable and have requested a waiver from CSS. To meet the time line, we would have to accrue and estimate more costs, a practice that the County Auditor Controller does not support. However, according to Section 5.4 of the CSS Contract, Part I, Unique Terms and Conditions, our invoice will not be considered a "past due invoice" unless it is submitted more than thirty (30) days after the last day of the month in*

which the services were rendered. While Catholic Charities has not met the 10 day requirement, it has consistently met the Section 5.4 provision.

PAYROLL AND PERSONNEL

Recommendations #s 10,11, & 12

Catholic Charities management:

10. Repay CSS \$4,000, request a budget modification to establish a budget for incentives or request a waiver from CSS.
11. Ensure that expenditures are charged to the appropriate cost category and stop paying wages to participants for attending educational activities.
12. Review the Fiscal Year 2007-08 payroll expenditures to ensure that the Agency charged the incentives to the appropriate cost category and repay CSS for any unallowable and/or unsupported amounts.

Response #s 10,11, & 12

- 11. The incentives were associated with job skills preparation. These are allowable costs that were not budgeted separately. However, we have discussed this matter with CSS and have requested a waiver.*
- 12. We will reclassify the incentive payments from Participant Wages category to Incentives for current and future budgets to avoid this concern.*
- 13. Same as recommendation #11, which has been performed.*

COST ALLOCATION PLAN

Recommendations # 13 and 14

Catholic Charities management

13. Revise the Agency's Cost Allocation Plan to comply with the County contract and ensure compliance.
14. Review the FY 2007-08 shared program expenditures, reallocate the shared expenditures based on an acceptable cost allocation method and repay CSS for any overbilled amounts.

Response # 13 and 14

- 14. This is an issue that needs to be discussed with CSS as to whether or not the inclusion of subcontractor costs are appropriate in the cost base for allocation purposes. This is how the costs were officially budgeted for the program and approved by CSS. As a lead agency, we have oversight responsibility and subcontractors perform direct client services as part of the collaborative model. Subcontractor costs must be included in the cost allocation since they represent direct program costs. On the contrary, to exclude these costs would skew and distort the allocation of shared costs. Our subcontractors are surrogate employees who are performing core program work and their costs should be treated in the same manner as employees.*
15. We will review the expenditures when a determination and resolution is made with CSS.

CLOSE-OUT REVIEW

Recommendations #s 15,16, 17, & 18

Refer to current year's recommendations 4, 6 and 11.

Catholic Charities management:

15. Repay CSS \$31,483 (\$39,227 - \$7,229 - \$515)
16. Review the FY 2006-07 payroll expenditures to ensure that the Agency charged the incentives to the appropriate cost category and repay CSS for any unallowable and/or unsupported amounts.
17. Ensure that amounts billed to CSS do not exceed the budgeted amount.

18. Comply with the Agency's Cost Allocation Plan and ensure that costs are appropriately allocated.

Response #s 15,16,17, & 18

16. *We disagree with the recommendation. The \$31,483 includes \$14,300 related to the classification of incentives as wages. Incentives are allowable costs and we have asked for a waiver from CSS. \$9148 is related to the issue of the inclusion of subcontractors' costs in the calculation of the indirect expenditures. Catholic Charities allowable indirect cost rate is 19.3%, well below what we budget and allocate to the WIA program. In essence, we are subsidizing the WIA program by absorbing most of the indirect costs. Furthermore, we believe the cost allocation methodology is sound and in conformity with Generally Accepted Accounting Practices. The OMB reference is taken out of context since it is not reflective of the collaborative model involving direct program services costs. Eliminating subcontractor costs would exclude personnel that provide direct client needs. We will consult with CSS regarding this matter since it has never been an issue with any of WIA programs in the past. Also see our response # 13.*
17. *See our response to recommendation #10 where we have requested a waiver.*
18. *Generally, every effort is made to ensure compliance with budget. The budget represents an expenditure plan. However, it is not possible to develop a budget and forecast each line item expenditure with a high degree of precision. For FY 2006-07 we were required to submit a final budget amendment by March 31, which required that we forecast each line item expenditure with a high degree of precision for the remaining three months. The State allows 20% budget flexibility as do most LWIAs. Consequently, we have requested that CSS provide us with a budget waiver since the budget variance amounts are 'reasonable, necessary and allowable' costs to meet contract performance requirements. CSS has agreed that we can make budget modification through May 31, 2008..*
19. *We will comply with the recommendation.*

PRIOR YEAR FOLLOW-UP

Recommendations #s 19 & 20

Catholic Charities management:

19. Immediately repay CSS \$342
20. Implement the outstanding recommendations.

Response #s 19 & 20

20. This item relates to costs incurred for a qualifying participant in the subsequent year, as we had explained in the response to the FY 2006-07 finding. We will discuss the resolution of this item with CSS.

20. The only remaining item is the billing by the tenth day. Please see our response to recommendation #9.

If you have any questions please contact me or David I. Furukawa, Assistant Controller at (213) 251-3466.